

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ANDERSON COUNTY HOSPITAL
DECEMBER 31, 2015 AND 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of Anderson County Hospital provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2015 and 2014. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The Hospital's net position decreased by \$1,916,174 or 7.2 percent and increased by \$371,112 or 1.4 percent during the 2015 and 2014 fiscal years, respectively.

The net position of Anderson County Hospital Foundation (the Foundation), a component unit of the Hospital, increased by \$69,062 or 20.6 percent in 2015, and decreased by \$61,411 or 15.5 percent in 2014.

Using these financial statements

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by or for the benefit of the Hospital, and resources restricted for specific purposes by contributors, grantors, and indenture agreements.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. For purposes of these two statements, revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's net position - the difference between assets and liabilities - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's physical plant and measures of the quality of facilities it provides to the community, as well as local economic factors, to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Assets, liabilities, and net position

The Hospital's statements of net position as of the end of each of the last three years are summarized as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets			
Current assets	\$ 323,216	\$ 214,812	\$ 176,367
Assets limited as to use	633,589	4,858,831	22,079,586
Capital assets, net	23,814,741	24,320,593	5,286,103
Other assets	<u>385,808</u>	<u>385,808</u>	<u>385,808</u>
Total assets	<u>\$ 25,157,354</u>	<u>\$ 29,780,044</u>	<u>\$ 27,927,864</u>
Liabilities			
Current liabilities	\$ 266,940	\$ 2,837,047	\$ 1,200,122
Long-term obligations	<u></u>	<u>136,409</u>	<u>292,266</u>
Total liabilities	<u>\$ 266,940</u>	<u>\$ 2,973,456</u>	<u>\$ 1,492,388</u>
Net position	<u>\$ 24,890,414</u>	<u>\$ 26,806,588</u>	<u>\$ 26,435,476</u>

Net capital assets decreased during 2015 due to depreciation expense exceeding acquisitions. Net capital assets increased during 2014 and 2013 due to purchases related to the construction of a new facility.

On April 2, 2013, a majority of the qualified electors of Anderson County, Kansas (the County), approved, at a special bond election, the question whether to issue general obligation bonds of the County in an amount not to exceed \$25,455,000 to pay the cost of constructing a new hospital facility and to advance refund a portion of the County's Series 2005-A General Obligation Refunding and Improvement Bonds. The County issued its General Obligation Refunding and Improvement Bonds, Series 2013-A, on August 1, 2013, in the amount of \$25,455,000. Upon issuance of the bonds, the Hospital received \$24,097,774 from the bond proceeds which was recorded as a capital contribution.

The Hospital's net position decreased by \$1,916,174 or 7.2 percent and increased by \$371,112 or 1.4 percent during the 2015 and 2014 fiscal years, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Operating results and changes in net position

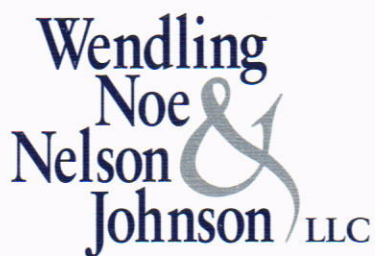
The Hospital's operating results and changes in net position for each of the last three years are summarized as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 1,084,245	\$ 595,282	\$ 582,772
Operating expenses	<u>2,123,830</u>	<u>363,542</u>	<u>550,821</u>
Operating income (loss) before provision for impairment of capital assets	(1,039,585)	231,740	31,951
Provision for impairment of capital assets			<u>(2,149,000)</u>
Operating income (loss)	(1,039,585)	231,740	(2,117,049)
Investment income	1,680	1,289	1,453
Interest expense	(10,983)	(18,885)	(115,106)
Noncapital grants and contributions	674	1,732	5,685
Gain on disposal of capital assets	16,822	236	1,281
Capital grants and contributions	147,476	155,000	24,180,615
Transfers to Anderson County	<u>(1,032,258)</u>		
Change in net position	<u>\$ (1,916,174)</u>	<u>\$ 371,112</u>	<u>\$ 21,956,879</u>

Typically, the most significant component of the overall change in the Hospital's net position is its operating income (loss) - generally, the difference between rent income and the expenses incurred in connection with the rental activity. However, capital contributions from the County were the most significant component of the Hospital's change in net position during 2013. The Hospital also received contributions from the Foundation during 2015 and 2014 for acquisition of equipment.

Operating expenses consist primarily of depreciation on capital assets; \$1,974,912, \$309,278, and \$468,783 during each of the years ended December 31, 2015, 2014, and 2013, respectively. Depreciation expense increased significantly during 2015 due to the new facility being placed into service on January 29, 2015.

The Hospital has agreed to transfer the lease payments received from Saint Luke's Hospital under the Restated Lease to the County for the purpose of making principal and interest payments on the bonds as they come due. The Hospital transferred \$1,032,258 to the County during the 2015 fiscal year to pay principal and interest due on bonds.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Anderson County Hospital

We have audited the accompanying financial statements of the business-type activity and discretely presented component unit of Anderson County Hospital (the Hospital), a component unit of Anderson County, Kansas, as of and for the years ended December 31, 2015 and 2014, which collectively comprise the Hospital's financial statements as listed in the table of contents and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express our opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component unit of Anderson County Hospital as of December 31, 2015 and 2014, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information on page 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Wendling Roe Nelson & Johnson LLC
Topeka, Kansas
March 23, 2016

FINANCIAL STATEMENTS

ANDERSON COUNTY HOSPITAL
STATEMENTS OF NET POSITION
December 31,

ASSETS

	2015		2014	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 287,047	\$ 109,041	\$ 92,542	\$ 44,557
Assets limited as to use	32,601		33,863	
Prepaid expenses	2,010		4,450	
Other receivables	1,558		83,957	
Total current assets	<u>323,216</u>	<u>109,041</u>	<u>214,812</u>	<u>44,557</u>
ASSETS LIMITED AS TO USE				
Internally designated	420,221	294,955	424,422	290,377
Under indenture agreements - held by trustee	32,601		33,863	
By contributors				
For nurse training	212,504		213,837	
For capital acquisitions	864	5	4,220,572	5
	666,190	294,960	4,892,694	290,382
Less amount required to meet current liabilities	<u>32,601</u>		<u>33,863</u>	
Total assets limited as to use	<u>633,589</u>	<u>294,960</u>	<u>4,858,831</u>	<u>290,382</u>
CAPITAL ASSETS, NET	<u>23,814,741</u>	<u>-</u>	<u>24,320,593</u>	<u>-</u>
OTHER ASSETS				
Due from lessee	<u>385,808</u>	<u>-</u>	<u>385,808</u>	<u>-</u>
Total assets	<u>\$25,157,354</u>	<u>\$ 404,001</u>	<u>\$29,780,044</u>	<u>\$ 334,939</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	2015		2014	
	Hospital	Component unit	Hospital	Component unit
CURRENT LIABILITIES				
Current installments of long-term debt	\$ 94,917	\$ -	\$ 90,000	\$ -
Current portion of capital lease obligations	41,732		66,249	
Accounts payable	10,503		18,429	
Construction costs payable	33,119		2,659,768	
Unearned revenue	85,333			
Accrued interest payable	1,336		2,601	
Total current liabilities	266,940	-	2,837,047	-
LONG-TERM DEBT, less current maturities			94,677	
CAPITAL LEASE OBLIGATIONS, less current portion			41,732	
Total liabilities	266,940	-	2,973,456	-
NET POSITION				
Invested in capital assets - net of related debt	23,678,092		24,027,936	
Restricted				
For debt service	32,601		33,863	
Expendable for capital acquisitions	864	5	4,220,572	5
For specific operating activities	212,504		213,337	
Unrestricted	966,353	403,996	(1,689,120)	334,934
Total net position	24,890,414	404,001	26,806,588	334,939
Total liabilities and net position	\$25,157,354	\$ 404,001	\$29,780,044	\$ 334,939

ANDERSON COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended December 31,

	2015		2014	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Operating revenues				
Medical office building rent	\$ 97,875	\$ -	\$ 100,367	\$ -
Hospital rent	<u>986,370</u>		<u>494,915</u>	
Total operating revenues	<u>1,084,245</u>	<u>-</u>	<u>595,282</u>	<u>-</u>
Operating expenses				
Supplies and other expenses	148,918	13,141	54,264	18,669
Depreciation and amortization	<u>1,974,912</u>		<u>309,278</u>	
Total operating expenses	<u>2,123,830</u>	<u>13,141</u>	<u>363,542</u>	<u>18,669</u>
Operating income (loss)	<u>(1,039,585)</u>	<u>(13,141)</u>	<u>231,740</u>	<u>(18,669)</u>
Nonoperating revenues (expenses)				
Investment income	1,680	6,417	1,289	21,289
Interest expense	(10,983)		(18,885)	
Noncapital grants and contributions	674	63,192	1,732	70,969
Gain on disposal of capital assets	<u>16,822</u>		<u>236</u>	
Total nonoperating revenues (expenses)	<u>8,193</u>	<u>69,609</u>	<u>(15,628)</u>	<u>92,258</u>
Excess of revenues over (under) expenses before capital grants and contributions	(1,031,392)	56,468	216,112	73,589
Capital grants and contributions	147,476	12,594	155,000	(135,000)
Transfers to Anderson County	<u>(1,032,258)</u>			
Change in net position	(1,916,174)	69,062	371,112	(61,411)
Net position at beginning of year	<u>26,806,588</u>	<u>334,939</u>	<u>26,435,476</u>	<u>396,350</u>
Net position at end of year	<u>\$24,890,414</u>	<u>\$ 404,001</u>	<u>\$26,806,588</u>	<u>\$ 334,939</u>

The accompanying notes are an integral part of these statements.

ANDERSON COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
Year ended December 31,

	2015		2014	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Cash flows from operating activities				
Receipts from lessee	\$ 1,252,003	\$ -	\$ 593,290	\$ -
Payments for supplies and services	<u>(154,404)</u>	<u>(13,141)</u>	<u>(51,903)</u>	<u>(18,669)</u>
Net cash provided (used) by operating activities	<u>1,097,599</u>	<u>(13,141)</u>	<u>541,387</u>	<u>(18,669)</u>
Cash flows from noncapital financing activities				
Noncapital grants and contributions	<u>674</u>	<u>63,192</u>	<u>1,732</u>	<u>70,969</u>
Cash flows from capital and related financing activities				
Acquisition of capital assets	(4,098,306)		(17,712,735)	
Capital grants and contributions	147,476	12,594	155,000	(135,000)
Proceeds from sale of capital assets	19,421		236	
Principal payments on capital lease obligations	(66,249)		(63,490)	
Principal payments on long-term debt	(90,000)		(85,000)	
Interest paid	(12,009)		(19,689)	
Transfers to Anderson County	<u>(1,032,258)</u>			
Net cash used by capital and related financing activities	<u>(5,131,925)</u>	<u>12,594</u>	<u>(17,725,678)</u>	<u>(135,000)</u>
Cash flows from investing activities				
Change in assets limited as to use	4,226,497	(9,950)	17,219,136	(7,992)
Investment income received	<u>1,660</u>	<u>11,789</u>	<u>1,604</u>	<u>9,823</u>
Net cash provided by investing activities	<u>4,228,157</u>	<u>1,839</u>	<u>17,220,740</u>	<u>1,831</u>
Net change in cash and cash equivalents	194,505	64,484	38,181	(80,869)
Cash and cash equivalents at beginning of year	<u>92,542</u>	<u>44,557</u>	<u>54,361</u>	<u>125,426</u>
Cash and cash equivalents at end of year	<u>\$ 287,047</u>	<u>\$ 109,041</u>	<u>\$ 92,542</u>	<u>\$ 44,557</u>

The accompanying notes are an integral part of these statements.

ANDERSON COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	2015		2014	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (1,039,585)	\$ (13,141)	\$ 231,740	\$ (18,669)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities				
Depreciation and amortization	1,974,912		309,278	
Changes in				
Receivables and prepaid expenses	84,865		1,040	
Accounts payable	(7,926)		(671)	
Unearned revenues	85,333			
Net cash provided (used) by operating activities	<u>\$ 1,097,599</u>	<u>\$ (13,141)</u>	<u>\$ 541,387</u>	<u>\$ (18,669)</u>

The accompanying notes are an integral part of these statements.

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

1. Reporting entity

Anderson County Hospital (the Hospital) is a county hospital located in Garnett, Kansas. The Hospital was organized in 1947 and is operated under Kansas statutes as an entity legally separate from Anderson County (the County). Its Board of Trustees is appointed by the Board of County Commissioners of the County. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. For financial statement purposes, the Hospital is a discretely presented component unit of the County.

On October 1, 1997, the Hospital's Board of Trustees leased to Saint Luke's Hospital of Garnett (Saint Luke's) all of the real estate, equipment, and facilities constituting the Hospital for a period of eight years and it also transferred to Saint Luke's all nonrestricted current assets and current liabilities as then recorded on the books of the Hospital. Saint Luke's may, in its sole discretion, extend the term of the lease for up to three additional terms of five years each. The lease has been extended to September 30, 2015. Saint Luke's will pay to the Board of Trustees an amount equal to three percent of the net revenues it realizes from the hospital operation. Upon termination of the lease, Saint Luke's will return to the Board of Trustees all nonrestricted current assets and current liabilities as then recorded on the books of the hospital operation. A comparison will also then be made of the amount of current assets less current liabilities at the commencement and termination of the lease. If the amount of net current assets has decreased, Saint Luke's will pay an amount equal to that decrease to the Board of Trustees. If the amount of net current assets has increased, the Board of Trustees will pay an amount equal to that increase to Saint Luke's.

On June 24, 2013, the lease was amended and restated (Restated Lease) in anticipation of the County incurring \$25,455,000 of debt to finance construction of a new hospital facility. The Restated Lease is for an initial term of ten years commencing on the date that Saint Luke's occupies the new facility. The obligations of the Hospital and Saint Luke's remain in effect as stated in the lease until then. Effective January 29, 2015 (the date of occupancy), Saint Luke's will make annual lease payments to the Hospital of \$1,024,000 in monthly installments of \$85,333. The Restated Lease will automatically renew for five additional five-year periods unless Saint Luke's gives notice two years prior to the expiration of the initial or any renewal term.

The component unit discussed in Note A2 is included in the Hospital's reporting entity because of the nature and significance of its relationship with the Hospital.

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

2. Component unit

The financial statements include the financial data of the discretely presented component unit described below. The component unit is reported separately to emphasize that it is legally separate from the Hospital.

Anderson County Hospital Foundation (the Foundation) is a not-for-profit corporation formed in January 2000 to promote and advance the welfare of the Hospital.

3. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

4. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may at its discretion subsequently use for other purposes; assets held by a trustee under an indenture agreement; assets restricted by contributors to use for training nurses; and assets restricted by contributors for capital acquisitions. Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

5. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

6. Costs of borrowing

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

7. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

8. Net position

Net position of the Hospital is classified into three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted expendable net position" is the noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, contributors, or others external to the Hospital, including amounts deposited with trustees as required by indenture agreements. "Unrestricted net position" is the remaining net position that does not meet the definitions of the other two components of net position.

9. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with the rental of the medical office building and the hospital facility, which is the Hospital's principal activity. Nonexchange revenues, including noncapital grants and contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred in connection with the rental of the medical office building and the hospital facility, other than financing costs.

10. Income taxes

The Hospital is a county hospital and is, therefore, exempt from federal income taxes under Section 115 of the Internal Revenue Code.

11. Cash and cash equivalents

Cash and cash equivalents include all cash and certificates of deposit of all funds and funds invested in the overnight pool of the State Treasurer's investment pool, excluding any such amounts included in assets limited as to use.

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

12. Subsequent events

The Hospital has evaluated subsequent events through March 23, 2016, which is the date the financial statements were available to be issued.

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury Bills and Notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair market value equal to 100 percent of the uninsured amounts, and must be assigned for the benefit of the Hospital.

At December 31, 2015, the carrying amount of the Hospital's bank deposits, including certificates of deposit, was \$753,431 and the bank balances were \$757,690. Of the bank balances, \$606,338 was covered by federal depository insurance, and \$151,352 was covered by collateral held by a third-party bank, but not registered in the Hospital's name.

The Hospital's bank deposits are included in the financial statements under the following categories:

Cash	\$ 119,659
Assets limited as to use	
Internally designated	420,221
Under indenture agreement - held by trustee	816
By contributors for nurse training	211,871
By contributors for capital acquisition	<u>864</u>
Total bank deposits	<u>\$ 753,431</u>

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE C - ASSETS LIMITED AS TO USE

Investments are stated at fair value. The composition of the Hospital's assets limited as to use is as follows:

	<u>2015</u>	<u>2014</u>
Internally designated		
Cash and certificates of deposit	\$ 420,221	\$ 420,031
State Treasurer's investment pool		4,391
	<u>\$ 420,221</u>	<u>\$ 424,422</u>
Under indenture agreement - held by trustee		
Cash	\$ 816	\$ 816
Money market funds	31,785	33,047
	<u>\$ 32,601</u>	<u>\$ 33,863</u>
By contributors for nurse training		
Cash and certificates of deposit	\$ 211,871	\$ 213,197
Interest receivable	633	640
	<u>\$ 212,504</u>	<u>\$ 213,837</u>
By contributors for capital acquisitions		
Cash	\$ 864	\$ 249,798
State Treasurer's investment pool		3,970,774
	<u>\$ 864</u>	<u>\$ 4,220,572</u>

The composition of the Foundation's assets limited as to use is as follows:

	<u>2015</u>	<u>2014</u>
Internally designated		
Money market funds	\$ 3,390	\$ 5,136
Fixed income mutual funds	291,565	285,241
	<u>\$ 294,955</u>	<u>\$ 290,377</u>
By contributors for capital acquisitions		
Cash	<u>\$ 5</u>	<u>\$ 5</u>

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE D - CAPITAL ASSETS

Capital asset additions, retirements, and balances are as follows:

	2015			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 69,271	\$ -	\$ -	\$ 69,271
Land improvements		2,399,914		2,399,914
Buildings	873,387	15,089,770	9,520	15,953,637
Fixed equipment		6,799,024		6,799,024
Major movable equipment	3,229,048	116,959	267,719	3,078,288
Ambulance equipment	<u>269,319</u>	<u>154,211</u>		<u>423,530</u>
Totals at historical cost	<u>4,441,025</u>	<u>24,559,878</u>	<u>277,239</u>	<u>28,723,664</u>
Less accumulated deprecia- tion and amortization				
Land improvements		195,820		195,820
Buildings	497,853	990,662	9,520	1,478,995
Fixed equipment		498,046		498,046
Major movable equipment	2,613,581	250,794	265,120	2,599,255
Ambulance equipment	<u>178,274</u>	<u>39,590</u>		<u>217,864</u>
	<u>3,289,708</u>	<u>1,974,912</u>	<u>274,640</u>	<u>4,989,980</u>
Construction in progress	1,151,317	22,584,966	2,599	23,733,684
	<u>23,169,276</u>	<u>(23,088,219)</u>		<u>81,057</u>
Capital assets, net	<u>\$24,320,593</u>	<u>\$ (503,253)</u>	<u>\$ 2,599</u>	<u>\$23,814,741</u>

	2014			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 69,271	\$ -	\$ -	\$ 69,271
Buildings	747,170	126,217		873,387
Major movable equipment	3,057,263	171,785		3,229,048
Ambulance equipment	<u>269,319</u>			<u>269,319</u>
Totals at historical cost	<u>4,143,023</u>	<u>298,002</u>	<u>-</u>	<u>4,441,025</u>
Less accumulated deprecia- tion and amortization				
Buildings	460,755	37,098		497,853
Major movable equipment	2,383,994	229,587		2,613,581
Ambulance equipment	<u>135,681</u>	<u>42,593</u>		<u>178,274</u>
	<u>2,980,430</u>	<u>309,278</u>	<u>-</u>	<u>3,289,708</u>
Construction in progress	1,162,593	(11,276)		1,151,317
	<u>4,123,510</u>	<u>19,045,766</u>		<u>23,169,276</u>
Capital assets, net	<u>\$ 5,286,103</u>	<u>\$19,034,490</u>	<u>\$ -</u>	<u>\$24,320,593</u>

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE D - CAPITAL ASSETS - Continued

On April 2, 2013, a majority of the qualified electors of the County approved, at a special bond election, the question whether to issue general obligation bonds of the County in an amount not to exceed \$25,455,000 to pay the cost of constructing a new hospital facility and to advance refund a portion of the County's Series 2005-A General Obligation Refunding and Improvement bonds. The County issued its General Obligation Refunding and Improvement Bonds, Series 2013-A, on August 1, 2013, in the amount of \$25,455,000. Upon issuance of the bonds, the Hospital received \$24,097,774 from the bond proceeds which was recorded as a capital contribution.

The Hospital has agreed to transfer the lease payments received from Saint Luke's Hospital under the Restated Lease to the County for the purpose of making principal and interest payments on the bonds as they come due. The Hospital transferred \$1,032,258 to the County during 2015 to pay principal and interest due on the bonds.

Construction in progress at December 31, 2014, consisted primarily of costs incurred for the construction of a new hospital facility. Hospital operations moved to the new facility on January 29, 2015.

NOTE E - DUE FROM LESSEE

Unrestricted assets and liabilities transferred to Saint Luke's on October 1, 1997, were as follows:

Cash	\$ 104,238
Patient accounts receivable	1,006,972
Estimated third-party payor settlements	121,413
Supplies	98,007
Prepaid expenses	22,642
Other receivables	2,699
Advances to physicians	56,247
Accounts payable	(656,224)
Salaries and wages payable	(76,388)
Accrued vacation pay	(93,798)
Line-of-credit loan	(200,000)
	<u>\$ 385,808</u>

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE F - LONG-TERM DEBT

Long-term debt and capital lease obligations are summarized as follows:

	<u>2015</u>	<u>2014</u>
City of Garnett, Kansas Industrial Revenue Bonds Series 2006A, issued December 15, 2006, in the original amount of \$500,000, 5.625% term bonds due October 1, 2016, with mandatory redemptions beginning April 1, 2011	\$ 95,000	\$ 185,000
Unamortized deferred refunding loss	(83)	(323)
	94,917	184,677
Less current maturities of long-term debt	(94,917)	(90,000)
	<u>\$ -</u>	<u>\$ 94,677</u>
Capital lease obligations, imputed interest rates of 3.00% to 6.00%, collateralized by leased equipment with an unamortized cost of \$31,099 at December 31, 2015	\$ 41,732	\$ 107,981
Less current portion of capital lease obligations	(41,732)	(66,249)
	<u>\$ -</u>	<u>\$ 41,732</u>

On May 4, 1995, the City of Garnett, Kansas (the City), issued its Taxable Industrial Revenue Bonds, Series 1995, in the amount of \$450,000, on behalf of the Hospital pursuant to a trust indenture and a lease agreement dated April 15, 1995. The proceeds of the Bonds were used, together with other available funds of the Hospital, to acquire, construct, and equip a medical office building.

On December 15, 2006, the City issued \$645,000 in Industrial Revenue Bonds, Series 2006A and 2006B, on behalf of the Hospital. The proceeds of the 2006 bonds were used, together with other available funds of the Hospital, for the purpose of providing funds to (1) advance refund the \$297,000 of 1995 bonds outstanding at December 15, 2006, (2) pay costs related to the issuance of the 2006 bonds, and (3) pay for the costs of medical office building renovations. The advance refunding increased the total future debt service requirements of the Hospital by \$35,725. This resulted in an economic loss (the difference between the present value of the future debt service payments on the old and new debt) of \$6,412.

The trust indenture and the lease agreement require the Hospital to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay the bond principal and interest on the appropriate due dates.

With the commencement of the lease described in Note A1, Saint Luke's became the sub-lessee of the medical office building. Rental payments from Saint Luke's are equal to the amounts required to be transferred by the Hospital to the trustee which will provide sufficient funds to pay the bond principal and interest on the appropriate due dates.

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE F - LONG-TERM DEBT - Continued

On June 24, 2013, in conjunction with the Restated Lease, the Hospital entered into an amended and restated sublease (Restated Sublease) with Saint Luke's for the medical office building effective upon Saint Luke's occupancy of the new hospital facility with the term being the same as the Restated Lease. Under the Restated Sublease, rental payments from Saint Luke's will continue to be equal to the amounts required to be transferred by the Hospital to the trustee to pay the bond principal and interest as they become due until the last payment is made on the bonds, at which time rent will be set equal to the fair market rental value of the medical office building.

The following is a summary of changes in long-term debt and capital lease obligations:

	<u>Long-term debt</u>	<u>Capital lease obligations</u>
Outstanding at January 1, 2014	\$ 270,000	\$ 171,471
Principal payments	<u>(85,000)</u>	<u>(63,490)</u>
Outstanding at January 1, 2015	185,000	107,981
Principal payments	<u>(90,000)</u>	<u>(66,249)</u>
Outstanding at December 31, 2015	<u>\$ 95,000</u>	<u>\$ 41,732</u>

Scheduled annual debt service requirements are as follows:

	<u>Long-term debt</u>			<u>Capital lease obligations</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2016	<u>\$ 95,000</u>	<u>\$ 4,078</u>	<u>\$ 99,078</u>	\$ 42,388
Less amount representing interest on the capital lease obligations				<u>(656)</u>
				<u>\$ 41,732</u>

Total interest costs are summarized as follows:

	<u>2015</u>	<u>2014</u>
Total interest incurred	\$ 10,743	\$ 18,493
Amortization of deferred refunding loss	<u>240</u>	<u>392</u>
Interest expense	<u>\$ 10,983</u>	<u>\$ 18,885</u>

ANDERSON COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2015 and 2014

NOTE G - RISK MANAGEMENT

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

SUPPLEMENTARY INFORMATION

ANDERSON COUNTY HOSPITAL
BALANCE IN DEPOSITORY COMPARED WITH DEPOSITORY SECURITY
December 31, 2015

	Goppert State Bank		Patriots Bank	Farmers State Bank
	<u>Time deposits</u>	<u>Held in name of trustee</u>	<u>Time deposits</u>	<u>Time deposits</u>
Bank balance				
General checking	\$ 75,135	\$ -	\$ -	\$ -
General donation account	35,832			
Funds held by trustee		816		
Funded depreciation checking			23,395	
Funded depreciation certificates of deposit	75,000		322,706	
Project fund	12,555			
Restricted fund checking			10,251	
Restricted fund certificates of deposit			45,000	157,000
Total deposits	198,522	816	401,352	157,000
Less F.D.I.C coverage	198,522	816	250,000	157,000
Balance subject to pledging of securities	-	-	151,352	-
Market value of securities pledged	1,511,191		214,928	1,880
Market value of securities pledged in excess of depository requirements	\$ 1,511,191	\$ -	\$ 63,576	\$ 1,880